Negative Impact of Medicare Prescription Drug Conference Proposal on New Jersey

There are 1.2 million Medicare beneficiaries in New Jersey[1].

Approximately 94,000 NJ retirees[2] will lose their employer-based prescription drug benefits.

- Currently, 434,000[3] NJ retirees receive prescription drug coverage from their former employers. Under the Medicare bill, retirees with employer-based coverage would receive less of a subsidy from Medicare (28% as compared to 100%) than other seniors. This creates a disincentive to employers to maintain the drug coverage they currently offer and will likely lead to 2.1 to 2.7 million seniors nationwide losing their employer-based prescription drug benefits.

186,000 seniors in South Jersey could be subject to a risky Medicare privatization scheme, labeled premium support.[4]

- The Medicare conference agreement could place 186,000 New Jersey seniors in Camden, Salem, Burlington, and Gloucester County in a risky Medicare privatization scheme that will likely force healthy seniors into private plans, thereby raising premiums for those seniors who stay in traditional Medicare.
- Additionally, the conference agreement overpays private plans by $1,920 per beneficiary starting in 2006, in order to entice private health plans to enter the market to compete with Medicare.[5]

New Jersey Hospitals Receive Dramatically Less than their Fair Share Under the Medicare Bill.[6]

- While New Jersey has 3% of the nation's Medicare beneficiaries, New Jersey hospitals would receive only 1.7% or $342 million, of the $20 billion provider package. In contrast, Louisiana, which has 1.5% of the Medicare population, receives 6%, or $1.2 billion, of this funding.
- Of direct payments to hospitals ($13 billion total), New Jersey receives only $104 million, or 1/125th of the total funding. Alabama, which has 1.3% of the country's population, receives $738 million, or 5.5% of the funding.
- If New Jersey hospitals do not participate in the quality initiative, they actually stand to lose $287 million.

---

[1] 1.1 million seniors plus 100,000 disabled.w

[2] Drop rate based on CBO estimates. See *infra* note 3.

[3] Current levels of state employer-sponsored insurance from Ken Thorpe, "Potential Implications of the Medicare Prescription Drug Benefit on Retiree Health Care Benefits," September 13, 2003.

[4] Calculations based on CMS HMO participation data. MSAs that currently have 25% or more HMO penetration were considered qualifying.

[5] CMS 2004 AAPC inflated to 2006 using CBO estimated traditional Medicare cost growth.

[6] Estimates provided by the Senate Finance Committee, November 21, 2003.

- The Medicare conference agreement fails to place New Jersey hospitals' Area Wage Index (which reimburses hospitals for their labor-related costs) on an even playing field with rural hospitals' wage index. This issue, known as the Deborah Wage Index, results in New Jersey hospitals receiving $52 million less in Medicare reimbursements every year.

New Jersey Cancer Care Providers Will Lose $552 million.[7]

- The Medicare bill cuts payments to oncologists in order to subsidize rural health care providers. Yet, New Jersey has the third highest incidence of cancer and cancer is the second leading cause of death in our state.

The 152,097[8] low-income (below 100% of the federal poverty level) seniors in NJ who are currently dually eligible for and enrolled in both Medicare and Medicaid would receive fewer benefits under the Medicare bill than they currently receive under Medicaid.

- Currently, these seniors pay no copayments for their prescription drugs and are not subject to any formularies. Under the Medicare bill, they will have to pay $1 copayments for generic drugs, and $3 for brand name drugs. Additionally, these seniors – who currently have complete access to prescription drugs – will be subject to the formularies and other cost management mechanisms that the private prescription drug plans impose.

92,350 fewer seniors in New Jersey will qualify for low-income protections than under the Senate bill because of the assets test and lower qualifying income levels.[9]

The 220,000 NJ seniors who are currently enrolled in PAAD and Senior Gold, the state's pharmacy assistance programs for the aged and disabled, will face disruption in coverage and will likely receive less drug coverage than they currently receive.

- While the Medicare conference agreement will lead to $260 million[10] in savings for New Jersey's PAAD and Senior Gold programs, which the State will be able to use to wraparound the Medicare benefit for hundreds of thousands of seniors, the bill will not allow seniors to go to PAAD as their preferred prescription drug plan. The Corzine amendment, which the Conference rejected, would have preserved this choice. The agreement will force the NJ legislature to change the law and the design of PAAD, if New Jersey wants to continue with the program. The language will not provide for a smooth transition of these seniors. Seniors will either have to disenroll in PAAD, or they will have to enroll in 2 programs, the Medicare drug program, as well as in a new PAAD, as redesigned by the state legislature, meaning many of them may either lose their PAAD coverage because of confusing paperwork or if they stay in PAAD, there's a risk that without

[7] Community Oncology Alliance, November, 2003.
[8] Institute for America's Future, "Congress' Prescription Deal Costs People from New Jersey More and Undermines the Entire Medicare System," November 2003.
[9] Calculations based on income data from Congressional Research Service Report RL 31736, June 24, 2003; CBO estimates on loss of coverage due to assets test.
[10] The State of New Jersey currently spends $400 million annually on these programs.

complex administrative process, they could lose their right to enroll in the Medicare drug benefit without penalty. The private Medicare plans may also force PAAD to comply with their preferred drug list, so PAAD would be hampered in how it can wrap around Medicare, or whether it can cover drugs that are off the private drug plan formulary. In addition, because the federal funding is not flowing through the state, as it would have under the Corzine amendment, it is less likely that the state will expand its assistance beyond the PAAD and Senior Gold populations.

Approximately one million New Jersey Medicare beneficiaries will see their Part B deductibles rise faster than their Social Security benefits.

- Beginning in 2005, the Part B deductible will rise an average of 7 percent a year, outpacing the average growth of Social Security benefits, which, on average, rise only 2 percent a year.

51,980[11] NJ seniors will pay more for Part B premiums due to means testing.

- These seniors, with incomes above $80,000 a year, will see their monthly Part B premiums rise by more than $30 a month (the monthly Part B premium is currently $60).
- $80-100,000 = $93.24
- $100-150,000 = $133.20
- $150-200,000 = $173.16
- $200,000 and above = $213.12

November 21, 2003

[11] Calculations based on data from Congressional Research Service Report RS 21651, October 28, 2003.